

REPORT TO COUNTY COUNCIL

Asset Retirement Obligations Policy

To: Warden and Members of County Council

From: Director of Corporate Services

RECOMMENDATION

1. That the Asset Retirement Obligations Policy 6.10, as attached to Report No. CS 2024-02, be approved and included in the County's General Policy Manual.

REPORT HIGHLIGHTS

- The Asset Retirement Obligations (ARO) Policy stipulates the accounting treatment for ARO's so that users of the County's financial reports can discern information about County assets, and their end-of-life obligations.

IMPLEMENTATION POINTS

Upon Council's adoption of the recommendation contained in this report the Asset Retirement Obligation Policy will be posted to the County's General Policy Manual and be effective for the County's fiscal year beginning January 1, 2023. The identified liabilities will be measured and included in the County's financial statements beginning with the 2023 fiscal year.

Financial Impact

The County's financial statements reflect balances and disclosures in alignment with public sector accounting standards. PS 3280 Asset Retirement Obligations extends the standards to include liabilities related to the retirement of existing assets. The standard outlines that the recognition of the cost of an asset should include the legally obligated costs incurred to retire that asset in the future.

Once an asset retirement obligation liability is estimated, a liability and asset of equal value are recorded on the Statement of Financial Position. This effectively increases the carrying cost of the existing asset at the same time as recording the liability. Each year there will be an accrued expense in the Statement of Operations and Accumulated Surplus to increase the liability with the passage of time. Similar to amortization, this is a non-cash expense item and will be

included in the Budget for Public Sector Account Board (PSAB) Purposes, beginning with the 2025 budget year.

The standard will be implemented using the modified retroactive approach, whereas the cumulative adjustment for impact of liabilities for previous fiscal years will be recorded through the County’s accumulated surplus on January 1, 2023.

Communications

The policy will be added to the County’s General Policy Manual and staff will be appropriately informed.

2023-2026 STRATEGIC PLAN

Oxford County Council approved the **2023-2026 Strategic Plan** on September 13, 2023. The Plan outlines 39 goals across three strategic pillars that advance Council’s vision of “Working together for a healthy, vibrant, and sustainable future.” These pillars are: (1) *Promoting community vitality*, (2) *Enhancing environmental sustainability*, and (3) *Fostering progressive government*.

The recommendation in this report supports the following strategic goals.

Strategic Plan Pillars and Goals

PILLAR 1	PILLAR 2	PILLAR 3
		
Promoting community vitality	Enhancing environmental sustainability	Fostering progressive government
Goal 1.2 – Sustainable infrastructure and development		Goal 3.1 – Continuous improvement and results-driven solutions Goal 3.4 – Financial sustainability

See: [Oxford County 2023-2026 Strategic Plan](#)

DISCUSSION

Background

PS 3280, Asset Retirement Obligations, was issued by the Public Sector Accounting Standards Board (PSAB) in August 2018 to address the accounting treatment of retirement activities related to tangible capital assets arising from legal or contractual obligations. The standard is effective for fiscal years starting on or after April 1, 2022. The standard requires the upfront recognition of asset retirement obligations (ARO) as a liability, with a corresponding increase to the cost of the associated tangible capital asset.

The carrying amount of the liability must be reassessed at each financial reporting date. This includes taking into account new information and the appropriateness of the discount rate and other assumptions used. The liability for an asset retirement obligation must continue to be recognized until it is settled or otherwise extinguished.

The application of PS 3280 offers three different transitional provision options: prospective; retroactive; and modified retroactive. The transitional provision selected must be applied consistently across all asset retirement obligations. The County will use the modified retroactive approach as this is the most popular transitional provision across municipalities. The approach utilizes assumptions based on information at the beginning of the transition year (January 1, 2023), preventing the need for historical assumptions and discount rates, with the cumulative adjustment of the impact recorded through the accumulated surplus.

Comments

Attachment 1 to this report sets out the proposed Asset Retirement Obligations Policy in accordance with PS 3280. The Policy was developed using materials and training provided by the Municipal Finance Officer's Association, and has been reviewed by the County's current auditor.

Corporate Services staff are reviewing this standard with divisions to ensure that any laws, regulations, and contractual agreements which may result in asset retirement costs are captured. The exercise of identifying, assessing and estimating asset retirement obligations requires considerable effort and staff continue to work through this requirement; as such the magnitude of the liability is unknown at this time. Notable areas of impact are included below.

Upon implementation of PS 3280 an entry will be made to reverse the landfill closure and post closure liabilities recorded on the County's Consolidated Statement of Financial Position based on PS 3270 with an updated liability based on PS 3280 requirements being recorded. Under PS 3270 closure liabilities were recorded as landfill capacity was utilized, whereas under PS 3280 the entire closure liability is recorded upfront, which will result in an increase to the current liability reported.

The County will also recognize asset retirement obligations related to the presence of asbestos. As asbestos represents a health hazard when disturbed, there are legal obligations related to the removal of this substance when its being modified or disposed of, as stringent health and

safety measures are required. The presence of asbestos exists in a number of Oxford County facilities as well as underground pipes, and proper procedures will be followed when disposal is required.

CONCLUSIONS

The ARO Policy helps to ensure that a consistent approach is used when recording asset retirement obligations, and that the County maintains adherence to PSAB standards. Corporate Services staff continue to work with department staff to ensure all asset retirement obligations will be identified and appropriately reported on the 2023 financial statements.

SIGNATURES

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Original signed by _____

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Departmental approval:

Original signed by _____

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Director of Corporate Services

Approved for submission:

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ATTACHMENT

Attachment 1 – Asset Retirement Obligations Policy 6.10